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9 Attorneys for Defendants

10 Kannaway, LLC

11 General Hemp, LLC

12 HDDC Holdings, LLC

13 UNITED STATES DISTRICT COURT
14 SOUTHERN DISTRICT OF CALIFORNIA

15 CannaVest Corporation, a Nevada
16 corporation,

17 Plaintiff,

18 vs.

19 Kannaway, LLC, a California limited
20 liability company; General Hemp, LLC,
21 a California limited liability company;
22 HDDC Holdings, LLC a Delaware
23 limited liability company; and DOES 1-
24 20;

25 Defendants.

Case No.: 14-cv-02160-CAB-BLM

DECLARATION OF MICHELLE
SIDES IN SUPPORT OF BOND RE:
CANNABIS BEAUTY DEFINED

Judge: Hon. Cathy Ann Bencivengo
Dept: 4C

Preliminary Injunction Filed: 12/24/2014
Hearing: 2/12/2015

26 I, MICHELLE SIDES, declare as follows:

- 27 1. I am the principal of Kannaway, LLC, defendant in the above entitled action.
- 28 2. The following facts are based on my own personal knowledge and belief and
if called as a witness, I could and would, competently testify thereto.

- 1 3. This declaration is submitted in support of a bond pertaining to the
2 preliminary injunction filed by Plaintiff on or about December 24, 2014 and
3 granted by this Court on or about February 12, 2015.
- 4 4. The Cannabis Beauty Defined lined of products marked and sold by
5 Kannaway accounts for approximately 1/3 of Kannaway's sales and profits.
- 6 5. On or about December 19, 2014, Houlihan Capital, Investment Banking
7 Valuation & Financial Advisory firm ("Houlihan") was solicited to provide
8 an opinion on the fairness of a proposed transaction whereby 100% of the
9 membership interest of Kannaway, LLC would be purchased for a total
10 equity value of approximately \$80.0 million.
- 11 6. In rendering their opinion, the following was taken into account by Houlihan:
12 a. Monthly unaudited historical financial results for Kannaway from
13 January 2014 through October 2014;
14 b. Projected financial results for Kannaway for the years December 31,
15 2014 to 2017, excluding any cash flow or balance sheet projections,
16 prepared by Kannaway Management;
17 c. Certain industry research, such as analyst reports and data available from
18 various financial research databases;
19 d. Information regarding certain guideline publicly traded companies
20 considered reasonably comparable to Kannaway;
21 22 23 24 25 26 27 28

1 e. Houlihan reviewed certain other relevant, publicly available information,
2 including economic, industry, and information specific to Kannaway, as
3 deemed reasonable and pertinent to this engagement and the associated
4 analyses;
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6 f. Houlihan developed indications of value for Kannaway using generally
7 accepted valuation methodologies, utilizing information and sources
8 including, but not necessarily limited to, those described in the Houlihan
9 Opinion.
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11 7. An opinion was rendered by Houlihan (hereinafter the "Houlihan Opinion") on
12 or about January 2, 2015, affirming that the sale of Kannaway for \$80.0 million
13 is indeed a fair transaction and further assigning the company a fair value range
14 of between \$119.6 million - \$247.7 million (See Ex. A). To support the
15 Houlihan Opinion, the firm also created a presentation to support its findings
16 (See Ex. B). A restriction from selling the Cannabis Beauty Defined line will
17 drastically alter this value. Kannaway will face overwhelming hardship and
18 will be greatly damaged though its inability to sell and market the Cannabis
19 Beauty Defined line, which makes up 1/3 of the Company's value. The
20 profitability of the Cannabis Beauty Defined line was factored into the
21 Houlihan Opinion. Accordingly, the range of fair value assigned to Kannaway's
22 by the Houlihan Capital Report will be greatly diminished, compromising the
23 pending \$80.0 million sale. If Kannaway is unable to continue selling the
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1 Cannabis Beauty Defined line, the purchase offer will likely be greatly reduced
2 by at least \$26.6 million if not rescinded altogether. Kannway will accordingly
3 be harmed through this restraining order in amount no less than \$26.6 million,
4 1/3 of the offered purchase price of Kannway. Kannway respectfully requests
5 the bond take into account such damages.
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8 8. Since March 1, 2014, Kannaway has sold over \$4.6 million in Cannabis Beauty
9 Defined products (See Ex. C). Kannaway sells an average of \$390,000 in
10 Cannabis Beauty Defined products per month. The profit from the sale of these
11 products is equal to approximately \$117,000 per month. Kannaway has
12 approximately \$2,250,000 in merchandise it will be restrained from selling due
13 to the injunction. To account for such damages, Kannaway respectfully
14 requests the bond be set for an additional \$3,654,000 (12 months lost profits at
15 \$117,000/per month + \$2,250,000 in lost product damages) to account for such
16 damages.
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20 9. Kannaway has spent \$150,000 to date on expansion into other cities, including
21 grand opening events, furniture and supplies for new offices, events in Houston
22 and Dallas, and preparations for a future opening in Atlanta. An additional
23 \$60,666 has been spent on advertising and marketing specifically for Cannabis
24 Beauty Defined (See Ex. D). Kannaway has spent an additional \$24,000 in fees
25 paid for customer support, all for the development of the Cannabis Beauty
26 Defined line. (See Exhibits E-Q Kannway's marketing/promotional efforts)
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1 This injunction will result in damages to Kannaway in the amount of \$234,666
2 in wasted advertising and marketing funds if Kannaway is restrained from
3 further sales of the Cannabis Beauty Defined line. Accordingly, Kannaway
4 respectfully requests an additional \$234,666 be added to the bond to account
5 for such damages.
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8 10. In the interest of fairness and justice, and to account for the immense damages
9 that will be sustained by Kannaway though this injunction, Kannaway
10 respectfully requests the Court impose a bond of no less than \$30,488,666.
11 million to account for the grave damages that it will sustain.
12

13 I declare under penalty of perjury under the laws of the State of California that
14 the above is true and correct.
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16 Executed February 17, 2015, at San Diego, California.

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20 MICHELLE SIDES
21 KANNAWAY, LLC
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